

**Report 14-16
December 2014**

Biennial Report

January 1, 2013 – December 31, 2014

STATE OF WISCONSIN



Legislative Audit Bureau ■

Biennial Report

January 1, 2013 – December 31, 2014

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LEGISLATIVE AUDIT BUREAU

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The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit www.legis.wisconsin.gov/lab.



Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703; leg.audit.info@legis.wisconsin.gov; or (608) 266-2818.

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STATE OF WISCONSIN
Legislative Audit Bureau

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Joe Chrisman
State Auditor

December 19, 2014

Governor Scott Walker and
Members of the Legislature
State Capitol
Madison, Wisconsin 53702

Dear Governor Walker and Members of the Legislature:

This biennial report, which is required under s. 13.94(1)(j), Wis. Stats., summarizes the nonpartisan Legislative Audit Bureau's statutory responsibilities and highlights significant accomplishments from January 1, 2013, through December 31, 2014.

We publish independent audits, evaluations, reviews, opinions, and certifications that help to assure the Legislature and the public that financial transactions and management decisions are made effectively, efficiently, and in compliance with the law and that the policies and practices of state agencies are consistent with legislative intent. Our reports frequently include recommendations that improve government programs and services, maximize federal reimbursements, and ensure public funds are wisely spent and appropriately accounted for.

In the next biennium, the Bureau will have served the Wisconsin Legislature for 50 years. We look forward to continuing to deliver accurate, useful, independent, and nonpartisan analyses to enhance accountability and assist the Legislature in its oversight of state government.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/AS/ss

Purpose and Organization ■

The Legislative Audit Bureau assists the Legislature in maintaining effective oversight.

The Legislative Audit Bureau is a nonpartisan service agency that assists the Legislature in maintaining effective oversight of state programs and finances. We independently and systematically examine the accounting records and financial statements of entities that receive public funds, perform reviews of government operations that promote good fiscal and management practices, and evaluate programs and services that the State of Wisconsin provides to its citizens by:

- conducting financial audits and program evaluations of state agencies and programs as required by statutes or requested by the Legislature, the Joint Legislative Audit Committee, the Joint Committee on Legislative Organization, or the Governor;
- issuing independent auditor's opinions on the State's financial statements, which are published in the State's *Comprehensive Annual Financial Report* prepared in December of each year by the Department of Administration (DOA);
- verifying state agencies' compliance with laws and program regulations pertaining to federal funds received by the State of Wisconsin each year;

- performing other independent audits at the request of state agencies in order to demonstrate compliance or provide assurance of sound financial practices;
- staffing a hotline to address allegations of fraud, waste, and mismanagement in state government;
- conducting “best practices” reviews of governmental service delivery by counties and municipalities; and
- performing other audit and program evaluation work initiated by the State Auditor or in response to requests by individual legislators or other units of government.

Authority and Responsibilities

Our authority and responsibilities are enumerated in s. 13.94, Wis. Stats.

The authority and responsibilities of the Bureau and the State Auditor are enumerated in s. 13.94, Wis. Stats., which includes a broad mandate to provide assurance that financial transactions have been made in a legal and proper manner and to review state agency performance and program accomplishments. Statutes grant us access to financial records and other documentation relating to state agencies and certain other entities, and they require us to be strictly nonpartisan and to maintain the confidentiality of audits in progress.

Our authority to audit any county, city, village, town, or school district is described in s. 13.94(1)(m), Wis. Stats. In addition, gaming compacts between the State of Wisconsin and 11 Native American tribes require that audited financial statements and security audits of Indian gaming operations be made available to us.

Legislation enacted in 2013 and 2014 requires us to perform:

- no later than January 1, 2017, and biennially thereafter, a financial and performance evaluation audit of the newly established Milwaukee County Mental Health Board and of mental health functions, programs, and services in Milwaukee County (required by 2013 Wisconsin Act 203);
- beginning by May 1, 2016, a performance evaluation audit of the pilot program allowing certain licensed mental health professionals in the Milwaukee County Division of Behavioral Health

to take individuals into custody for emergency detention (required by 2013 Wisconsin Act 235); and

- a review of DOA's proposed contract with an investment manager for the investment of moneys in venture capital funds to determine the extent to which the contract conformed with certain provisions of 2013 Wisconsin Act 41—relating to the Venture Capital Investment Program. We submitted the letter of review required by Act 41 to the Joint Committee on Finance and the Secretary of DOA on April 21, 2014 (required by 2013 Wisconsin Act 41).

In addition, 2013 Wisconsin Act 8, which was introduced and approved unanimously by the Joint Legislative Audit Committee, made changes to the authority and responsibilities of the Legislative Audit Bureau and State Auditor, eliminated certain expired audit requirements, and required confidentiality during investigations of reports made to the Fraud, Waste, and Mismanagement Hotline.

Other recurring statutory audit responsibilities are described further in Appendix 1.

Budget and Staffing

Our annual operating budget is approximately \$6.3 million in general purpose revenue (GPR) and \$2.0 million in program revenue from audit contracts with other state agencies. We have an authorized staffing level of 86.8 positions.

We maintain organizational and personal independence from the entities we audit.

As part of the legislative branch of state government, we maintain organizational independence from the entities we audit, which are primarily agencies of the executive branch. The State Auditor is appointed by the Legislature's Joint Committee on Legislative Organization, and staff are appointed by the State Auditor from outside of the classified civil service system. All staff are required to complete annual ethics statements to identify any personal or external circumstances that could reasonably lead third parties to question their independence.

Professional staff hold bachelor's degrees, and many have also earned advanced degrees in areas such as accounting, business administration, and public policy. Most professional audit staff are in the Financial Audit Division, and most are certified public accountants. Analysts in the Program Evaluation Division

make up the remaining professional audit staff. Our current organization chart appears in Appendix 2.

We adhere to professional auditing standards.

Financial audit staff adhere to professional auditing standards promulgated by the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to:

- be free, in both fact and appearance, from impairments to independence;
- maintain professional competence through continuing education;
- have an appropriate internal quality control system in place; and
- employ peer reviews to assess compliance with auditing standards and the adequacy of the internal quality control system.

Financial auditors complete 80 hours of continuing professional education every two years, as required by government auditing standards, and both financial auditors and program evaluators receive training in core audit skill areas. Our internal quality control system includes detailed auditing policies and procedures, documentation requirements, supervisory review of all working papers, and both senior staff and editorial reviews of report drafts.

Every three years, through the National State Auditors Association, our peers from other states review this system and the working papers from selected financial audits for compliance with financial auditing standards. We successfully completed our most recent peer review in September 2012. Our evaluations of the FoodShare Wisconsin program (report 12-8) and the Wisconsin Economic Development Corporation (WEDC) (report 13-7) were recognized for “significant impact on public policy” by the National Conference of State Legislatures’ National Legislative Program Evaluation Society in 2013 and 2014, respectively.

Joint Legislative Audit Committee

The Joint Legislative Audit Committee has advisory responsibilities for the Audit Bureau.

The Joint Legislative Audit Committee has advisory responsibilities for the Audit Bureau. It may direct us to conduct audits and evaluations, and it receives and reviews the reports we issue. The Audit Committee approved 7 audit requests and held 11 public hearings in 2013 and 2014. In addition, consistent with nonstatutory

requirements of 2013 Wisconsin Act 20, the Audit Committee adopted a motion in April 2014 relating to the methodology for calculating University of Wisconsin (UW) System’s program revenue balances.

The Audit Committee consists of its co-chairs, the co-chairs of the Joint Committee on Finance, one other majority and two minority party senators, and one other majority and two minority party representatives. During the 2013-2014 legislative session, its members were:

Senator Robert Cowles, Co-chairperson	Representative Samantha Kerkman, Co-chairperson
Senator Mary Lazich	Representative Howard Marklein
Senator Alberta Darling	Representative John Nygren
Senator Kathleen Vinehout	Representative Jon Richards
Senator John Lehman	Representative Melissa Sargent

Additional information on Audit Committee hearings—including hearing notices, live and recorded broadcasts, and presentation materials from past hearings—can be found at our website, www.legis.wisconsin.gov/lab.

Requesting Our Services

Most of our program evaluation work is requested by legislators through the Joint Legislative Audit Committee. State agencies may also request our services in order to meet external audit requirements.

Any legislator may request an evaluation or audit by writing to the Audit Committee co-chairs.

Any legislator may request a program evaluation or a financial audit by writing to the Audit Committee’s co-chairs. Audit requests should clearly identify the topic, program, and agency in question, as well as the specific concerns that may be addressed by an audit or evaluation. Before submitting a request to the Audit Committee co-chairs, legislators may wish to discuss it with the State Auditor, who can provide information on similar topics that have been previously audited and help to assess the feasibility, size, and scope of the proposed inquiry.

Whether initiated in response to legislation or requested by individual members of the Legislature and approved by the Audit Committee, our work remains confidential until released by the State Auditor and distributed to members of the Legislature. Reports are distributed on the day of publication to all members of

the Audit Committee, other legislators, the Governor, members of the media, and other interested parties.

For many reports, we prepare *Report Highlights*, which feature key issues and the report's main findings and recommendations. *Report Highlights* are available in print, as podcasts, and at our website, www.legis.wisconsin.gov/lab. An email notification service is also available by free subscription.

Our website lists audits in progress and numbered reports published since 1993 and includes the full text and highlights of all published reports from 1998 through 2014. The first two digits of each document number indicate the year of publication.

Audit follow-up documents submitted by state agencies to the Audit Committee in response to recommendations contained in our reports are also available on our website. Audit follow-up received since 2011 is currently available.

For copies of our publications, please visit www.legis.wisconsin.gov/lab, call (608) 266-2818, or write to:

Legislative Audit Bureau
22 East Mifflin Street, Suite 500
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Noteworthy Findings and Hotline Activity ■

From January 2013 through December 2014, we published more than 33 reports, including:

- annual independent auditor's reports on the State of Wisconsin's general financial statements, which required on-site audit work at every major state agency and are published in the State of Wisconsin's *Comprehensive Annual Financial Report*;
- annual independent auditor's reports on the financial statements of UW System, which are published in its annual reports;
- financial audit reports, including 2 single audits that tested compliance with federal grant requirements related to approximately \$13 billion in federal financial assistance administered annually by state agencies in fiscal year (FY) 2011-12 and FY 2012-13;
- program evaluation reports and reviews designed to measure the extent to which state agencies or programs have achieved their intended objectives;
- one best practices review that identified certain local governmental best practices for e-government; and

- numerous other audit opinions and certifications, including those published in annual reports prepared by the State of Wisconsin Investment Board (SWIB) and the Department of Employee Trust Funds.

Financial Audits and Program Evaluations

Financial audits include detailed, impartial reviews of the financial statements prepared by an audited entity.

Financial audits are detailed, impartial reviews that focus on:

- the accuracy of financial statements prepared by an audited entity;
- the effectiveness of internal controls, which are the policies and procedures established by management to ensure the integrity and comprehensiveness of financial reporting and proper administration of state funds; and
- compliance with required accounting or other standards, including laws, regulations, and contracts or grant agreements.

We perform independent financial audits as required by statutes and in response to requests by some state agencies. Our financial audit reports generally include an auditor’s opinion that indicates whether financial transactions have been conducted and reported appropriately, as well as a report on internal controls and on our tests for compliance with certain laws and other regulations. Noncompliance in these tested cases could have a direct and material (that is, quantitatively or qualitatively significant) effect on the amounts shown in the financial statements and may be defined as a significant deficiency or a material weakness.

An unmodified opinion signifies that audited financial statements reliably represent an entity’s true financial condition.

An unmodified, or “clean,” opinion signifies that after reviewing an agency’s financial statements and the accompanying notes, the auditor has concluded they conform to generally accepted accounting principles (GAAP), or in some cases to another standard, and that they reliably represent the agency’s true financial condition. A modified opinion expresses reservations about the financial statements because, for example, underlying records are not sufficient or accounting principles have not been consistently applied from year to year. Formerly, unmodified opinions were called unqualified opinions, and both terms were used during this biennium.

Program evaluations measure the extent to which an agency or program is achieving its objectives.

Program evaluations and reviews establish performance criteria; measure existing conditions, their probable causes, and actual and potential effects; and typically include recommendations for improving agency operations or enhancing legislative oversight.

2009 Wisconsin Act 2 required that we conduct a financial and performance evaluation audit of the Business Development in Wisconsin Tax Incentives Program currently administered by WEDC, before July 1, 2014. Our audit of WEDC (report 13-7) fulfilled this requirement in May 2013.

Noteworthy Findings

Our audit and evaluation work frequently identifies opportunities for the Legislature to increase its oversight of high-profile initiatives, important policy issues, and government operations. In 2013 and 2014, we identified improvements that could be made to financial reporting by state agencies. For example:

- We identified financial statement errors and reported a material weakness in financial statements of the Injured Patients and Families Compensation Fund because the Office of the Commissioner of Insurance had not established adequate procedures and internal controls to ensure the accuracy of the Fund's financial statements. (For details, see report 13-4, *Injured Patients and Families Compensation Fund*.)
- We reported a material weakness related to reporting errors made by the Department of Employee Trust Funds in its preparation of financial statements for the various benefit programs it administers. (For details, see the State of Wisconsin's *Comprehensive Annual Financial Report* for FY 2012-13.)
- We identified several errors that we believed should have been detected by the Wisconsin Lottery's financial reporting review process. The most significant error included a \$14,850,000 omission in compiling the Statement of Cash Flows. Although this amount was appropriately included in the underlying compilation spreadsheets, the review process did not identify that the amount had been omitted from the Statement of Cash Flows. (For details, see report 14-10, *Wisconsin Lottery*.)

We also questioned the appropriateness of expenditures, identified ways for the state to claim additional funding, and recommended improvements to the State's administration of federal funds. For example:

- The Department of Children and Families (DCF) may receive federal reimbursement for a portion of the treatment foster care costs incurred in serving eligible children. We found that DCF did not seek federal reimbursement for all eligible expenditures and that, had it done so, DCF could have received an estimated \$470,000 in additional federal funds in 2012. We independently reviewed a selection of 1,844 transactions totaling \$838,739 made by five child-placing agencies from January 2010 through December 2012. We assessed whether the expenditures were made in compliance with state policies and federal rules. We questioned 558 transactions totaling \$129,525. (For details, see report 13-15, *Child-Placing Agencies*.)
- Although state agencies generally comply with federal grant requirements, we provided 65 recommendations to improve the State's administration of federal funds for FY 2011-12 and 22 recommendations for FY 2012-13. (For details, see report 14-6, *State of Wisconsin FY 2012-13 Single Audit*.)

We identified areas where improvements to program operations and effectiveness could be achieved. For example:

- We identified steps that the Department of Health Services (DHS) could take to reduce the costs of supervised release of sexually violent persons, including issuing a request for proposals for monitoring and transportation services that are provided to individuals on supervised release and identifying additional firms that may be willing to purchase and rent residences to house individuals on supervised release. Follow up from DHS indicates that the agency anticipates it will save \$677,400 in monitoring and transportation services in FY 2014-15. (For details, see report 13-12, *Supervised Release Placements and Expenditures*.)
- DOA provides oversight of the energy assistance and weatherization assistance programs directly

and through a contractor. DOA and its contractor conduct inspections of weatherized dwelling units. Of the 1,387 dwelling units inspected from July 1, 2011, through June 30, 2013, we reviewed 251 inspection reports. We found that DOA or its contractor identified at least one area of program noncompliance for 83.7 percent of the dwelling units. (For details, see report 14-8, *Energy Assistance and Weatherization Assistance Programs*.)

Other matters we analyzed in 2013 and 2014 are likely to be topics of ongoing legislative consideration. For example:

- We categorized the level of commitment for \$755.4 million of UW System's total program revenue balance as of June 30, 2012. UW institutions did not provide documentation of a plan or obligation for 18.8 percent of these balances. 2013 Wisconsin Act 20, the Biennial Budget Act, required the Board of Regents to submit its proposed methodology for calculating program reserve balances to the Joint Legislative Audit Committee for approval, modification, or disapproval. The committee adopted a motion with an approved methodology and, in response to this motion, UW System presented a report of its program revenue balances and reserves to the Board of Regents in October 2014. (For details, see report 13-17, *Level of Commitment for University of Wisconsin System Program Revenue Balances*.)
- We provided a number of recommendations designed to help WEDC administer its taxpayer-funded economic development programs effectively. We also found that WEDC did not follow various statutory requirements related to monitoring and reporting on program results, including on the numbers of jobs created and retained as a result of its programs, and that WEDC did not monitor expenditures incurred by each of its programs in FY 2011-12. We provided a number of recommendations designed to help WEDC improve its operations in these areas. (For details, see report 13-7, *Wisconsin Economic Development Corporation*.) We also recommended that WEDC further improve its financial management, including its efforts to monitor loans. (For details, see report 14-11, *Wisconsin Economic Development Corporation*.)

- We found that the Government Accountability Board's (GAB's) staff did not complete certain statutorily required duties in a timely manner, typically did not follow a GAB-approved schedule for determining the penalty amounts to assess for violations of campaign finance, lobbying, and code of ethics laws, and did not regularly provide GAB with complete information on their enforcement efforts. In addition, staff did not always have written procedures for deciding when to assess or waive penalties and had no written procedures for considering complaints filed with GAB. We provided a number of recommendations designed to help GAB and its staff to improve the agency's operations. (For details, see report 14-14, *Government Accountability Board*.)

We identified issues related to information technology. For example:

- We continued to report significant deficiencies related to programmer access at DHS and the Department of Transportation that could result in unauthorized changes being made to their information technology systems. (For details, see the State of Wisconsin's *Comprehensive Annual Financial Audit* for FY 2012-13.)
- We again reported a material weakness in internal control over Human Resource System (HRS) security. We also found, in part because UW System did not significantly standardize and simplify business processes prior to its implementation of HRS, it made a total of 192 modifications to the software it purchased to create HRS, largely to be consistent with its existing policies or procedures. Several of these modifications created problems for payroll and benefits processing. For example, a modification needed to comply with federal law and to accurately calculate payroll taxes for certain student employees was not correctly implemented and resulted in an estimated \$1.2 million not being withheld from June 2011 through September 2011. (For details, see report 14-3, *University of Wisconsin System* and report 14-4, *Oversight of the Human Resource System and Payroll and Benefits Processing—University of Wisconsin System*.)

- We reported on large information technology projects currently being taken on by state agencies. For example, DOA plans to implement a new IT system, known as the State Transforming Agency Resources (STAR) project, using software that is similar to HRS. Based on a 2013 study, the cost of the planned STAR project is estimated to be \$138.7 million over a four-year period. The Department of Employee Trust Funds plans to implement a new computer system to administer several public employee benefit programs. This system is expected to be implemented in several phases beginning in 2014 at an estimated cost of \$39.2 million. SWIB's new enterprise investment management system, which is designed to enhance SWIB's performance and analytical capabilities through the integration of investment data with operations, accounting, and compliance activities, is expected to be implemented in several phases over the next three to four years at an estimated cost of \$48 million. (For details, see report 14-4, *Oversight of the Human Resource System and Payroll and Benefits Processing—University of Wisconsin System* and report 14-9, *State of Wisconsin Investment Board*.)

Fraud, Waste, and Mismanagement Hotline

2007 Wisconsin Act 126 established our toll-free Fraud, Waste, and Mismanagement Hotline (1-877-FRAUD-17) to allow the public and individuals within state government to report alleged fraud, waste, mismanagement, and other improper activities. Callers may remain anonymous, and the statute governing the hotline specifically requires us to protect their identities even when other information related to calls is made public. A secure web-based form is also available to report concerns and is available at <http://www.legis.wisconsin.gov/LAB/>.

The hotline has been in operation since April 2008 and is staffed primarily by a Certified Fraud Examiner. It does not duplicate or replace other government hotlines or complaint resources. Since its inception, we have addressed more than 700 hotline reports alleging fraud, waste, and mismanagement by:

- following up during the course of ongoing audit work;
- initiating formal communication with other state agencies;

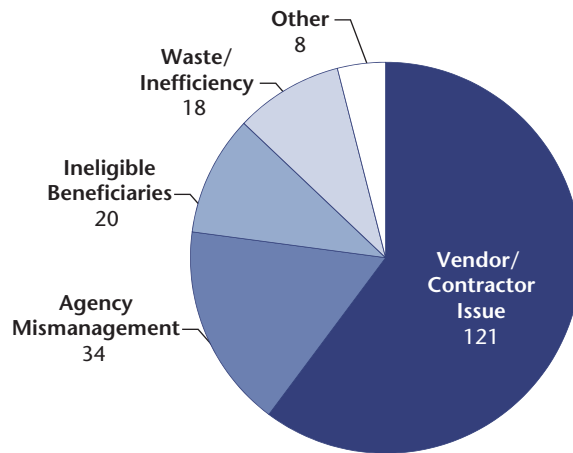
- conducting audits or reviews in response to substantiated allegations, and reporting our findings to the Joint Legislative Audit Committee; and
- making referrals, providing information, and correcting misinterpretations that result in allegations.

From January 1, 2013, through December 16, 2014, 201 of the 236 concerns reported to the hotline were state-related issues. As shown in Figure 1, many of the reports were allegations pertaining to state contractors.

As shown in Figure 2, we resolved 38 reports to the hotline either directly or by referral and determined that 16 were unfounded, unsubstantiated, or required no action as of December 16, 2014. Many of the 147 reported concerns under review as of December 16, 2014, relate to non-emergency medical transportation. These reported concerns remain under review while we conduct fieldwork for the non-emergency medical transportation program audit, which was approved by the Joint Legislative Audit Committee in April 2014.

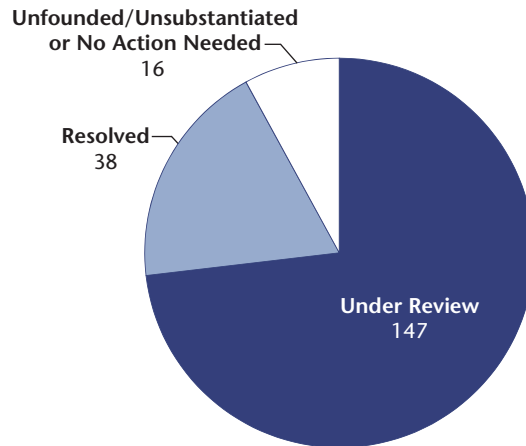
Figure 1

Reports of Fraud, Waste, and Mismanagement in State Government¹



¹ A total of 201 state-related reports were received from January 1, 2013, through December 16, 2014.

Figure 2

Status of Reports Received¹
As of December 16, 2014

¹ A total of 201 state-related reports were received from January 1, 2013, through December 16, 2014.

The following examples illustrate the variety and breadth of issues received by the hotline during the biennium:

- We reviewed two issues pertaining to UW-Madison's use of parking fees and fines revenues. Section 36.11(8)(b), Wis. Stats., restricts use of parking fees and fines revenues to developing and operating parking or other transportation facilities.

First, we recommended that UW-Madison's Transportation Services (Transportation Services) collect all parking fees from athletic events. Before July 2011, UW-Madison's Division of Intercollegiate Athletics (Athletics Division) was authorized under s. 20.285(5)(i), Wis. Stats., to retain parking fees from athletic events. However, 2011 Wisconsin Act 32, the 2011-13 Biennial Budget Act, repealed the authority. In September 2013, based on our recommendation, the Athletics Division transferred \$702,700 in parking fees it had retained during FY 2011-12 and FY 2012-13 to Transportation Services.

Second, we recommended that UW-Madison seek statutory changes to clarify whether parking fees and fines revenue may be used for certain programs currently

funded by that revenue, such as subsidies for the free UW-Madison campus bus route, employee bus passes, and other alternative transportation services.

- Following the Joint Legislative Audit Committee's public hearing in April 2014, three individuals also contacted the hotline to report difficulties they experienced in filing unemployment insurance (UI) claims. An audit report released in December 2014 (report 14-15) addressed the concerns raised in these reports to the hotline. For example, the audit identified causes for the difficulties individuals experienced in filing UI claims, particularly during peak times in the fall and winter months, as well as the steps that the Department of Workforce Development (DWD) is taking to address these issues. The audit also recommended that DWD could consider expanding online filing.
- In August 2013, we communicated a hotline report to the Department of Corrections (DOC) that alleged an employee was not accurately reporting absences. DOC had been monitoring the employee because of complaints it had also received. Among the actions taken by DOC were reducing the employee's leave balance by 27 hours for absences for which the employee had been paid, but had not accurately recorded as leave taken.
- We received a hotline report in February 2013 alleging misrepresentations in an application filed for energy assistance program benefits. DOA's Division of Energy Services substantiated the allegation and subsequently canceled the application and processed an overpayment of \$319.

We also periodically receive hotline reports involving allegations of ineligible beneficiaries for the FoodShare and Medical Assistance programs. For example, during the biennium, we received 17 hotline reports involving one or both of these programs. We worked with DHS's Office of Inspector General (OIG) on these hotline reports. The OIG sent three FoodShare beneficiaries warning letters, referred two reports to law enforcement, and continues to investigate several of the other reports we referred.

In addition to these examples, we addressed and involved relevant agencies in following up on various other hotline reports throughout the biennium, including tax fraud or avoidance, personnel matters, and other concerns.

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Report Summaries ■

A chronological summation of reports published in 2013 and 2014 follows. As noted, the full text of each document is available at www.legis.wisconsin.gov/lab. Appendix 3 is an index of reports by audit topic and Appendix 4 is an index of reports by audited entity.

Reports Published in 2013

Report 13-1: Biennial Report (January 2013)

The Biennial Report summarizes the nonpartisan Legislative Audit Bureau's statutory responsibilities and highlights significant accomplishments from January 1, 2011, through December 31, 2012. During this period, the Fraud, Waste, and Mismanagement Hotline (1-877-FRAUD-17) received 162 reports, of which 112 were specific to state agencies or programs.

Report 13-2: WHA Television (January 2013)

We provided an unqualified opinion on the FY 2011-12 financial statements of WHA Television. WHA Television earned \$15.1 million in revenue during FY 2011-12, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Report 13-3: WHA Radio (January 2013)

We provided an unqualified opinion on the FY 2011-12 financial statements of WHA Radio. WHA Radio earned \$11.1 million in revenue during FY 2011-12, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Report 13-4: Injured Patients and Families Compensation Fund (March 2013)
Office of the Commissioner of Insurance

We provided an unqualified opinion on the Fund's financial statements for FY 2011-12, FY 2010-11, and FY 2009-10. The Fund, which pays secondary medical malpractice claims and is funded by health care providers, experienced a significant improvement in its financial position. We also reported a material weakness in the Fund's internal controls over financial reporting.

Report 13-5: State of Wisconsin FY 2011-12 Single Audit (March 2013)

State agencies administered \$12.9 billion in federal financial assistance, including approximately \$1.1 billion under the federal American Recovery and Reinvestment Act of 2009. Our audit identified more than \$4.5 million in additional funds for state agencies to claim from the federal government. Although state agencies generally complied with federal grant requirements, we included 65 recommendations to improve the State's administration of federal funds.

Report 13-6: Universal Service Fund (April 2013)
Public Service Commission

We provided an unqualified opinion on the financial statements for FY 2011-12 and FY 2010-11. The USF is funded by assessments on telecommunications providers that are typically recovered from consumers. In FY 2011-12, the USF provided \$40.5 million for 13 programs operated by 4 state agencies, including all state aid to public library systems. We estimated that at least \$4.3 million in a DOA appropriation represented excess administrative services fees charged to the USF.

Report 13-7: Wisconsin Economic Development Corporation (May 2013)

In FY 2011-12, WEDC administered 30 programs through which it authorized local governments to issue \$346.4 million in bonds, awarded \$41.3 million in grants and \$20.5 million in loans, and provided \$110.8 million in tax credits. WEDC did not have sufficient policies, including some that were statutorily required, to administer its programs effectively. It made some awards to ineligible recipients, for ineligible projects, and for amounts that exceeded specified limits. We noted the need for additional efforts to help ensure effective program administration.

Report 13-8: State Fair Park (June 2013)

We provided an unqualified opinion on State Fair Park's financial statements for FY 2010-11 and FY 2011-12. On a cash basis, revenue from operations exceeded expenditures by \$918,000 in FY 2011-12. State Fair Park eliminated its cash deficit as of the end of FY 2011-12.

Report 13-9: Unemployment Reserve Fund (June 2013)
Department of Workforce Development

We provided an unqualified opinion on the Fund's financial statements for FY 2011-12 and FY 2010-11. Fund equity increased from a deficit of \$926.1 million

as of June 30, 2011, to a deficit of \$612.4 million as of June 30, 2012, or by \$313.7 million. This was the first increase in fund equity since FY 1999-2000.

Report 13-10: Health Insurance Risk-Sharing Plan (HIRSP) Authority
(June 2013)

We provided an unmodified opinion on the HIRSP Authority's financial statements for 2012. As of March 31, 2013, the number of policyholders in the state-based HIRSP plan totaled 22,333, and the number in the temporary federal high-risk plan totaled 2,320. We noted that the federal Affordable Care Act, and provisions in the 2013-15 Biennial Budget Bill, would affect the future of the HIRSP Authority.

Report 13-11: Wisconsin Lottery (July 2013)
Department of Revenue

We provided an unqualified opinion on the Wisconsin Lottery's financial statements for FY 2011-12 and FY 2010-11. Lottery ticket sales increased from \$494.7 million in FY 2007-08 to \$547.6 million in FY 2011-12, or by 10.7 percent. We included recommendations related to game management and certain retailer incentives.

Report 13-12: Supervised Release Placements and Expenditures (August 2013)
Department of Health Services

Circuit courts can authorize supervised release, which allows sexually violent individuals who have been civilly committed to live in the community under the custody of DHS. On March 31, 2013, 33 individuals were on supervised release. We found the rates paid by DHS under contracts for monitoring and transportation services were significantly higher than rates paid by DOC for similar services. We provided recommendations to reduce the cost of supervised release and to improve the placement and notification processes.

Report 13-13: Dental Services Grant (September 2013)
Marquette School of Dentistry

We completed a financial review of the Dental Services Grant provided to the Marquette University School of Dentistry. Marquette University generally complied with contract requirements for the \$5.0 million it received in GPR in FY 2010-11 and FY 2011-12 to help fund dental services provided to underserved Wisconsin residents.

Report 13-14: Governor's Read to Lead Development Fund (September 2013)

We completed a statutorily required financial review of the Governor's Read to Lead Development Fund, which was created to provide grants to school boards and other persons in support of literacy and early childhood development programs. The Fund had no expenditures or commitments made as of the end of FY 2012-13.

Report 13-15: Child-Placing Agencies (October 2013)*Department of Children and Families*

On December 31, 2012, 24 child-placing agencies were licensed by DCF to place and monitor children in treatment foster homes. At the five agencies we selected, we reviewed 1,844 transactions totaling \$838,739 and questioned costs totaling \$129,525. We included several recommendations to improve DCF oversight and address issues with certain administrative practices of child-placing agencies.

Report 13-16: State Life Insurance Fund (October 2013)*Office of the Commissioner of Insurance*

The Fund provides low-cost life insurance to Wisconsin residents and is self-funded through insurance premiums and investment earnings. For the years we reviewed, its financial statements were fairly presented in accordance with accounting practices prescribed by the Commissioner of Insurance. The ratio of the Fund's surplus to its assets, which was 11.0 percent as of December 31, 2012, was above the statutorily specified range of 7.0 percent to 10.0 percent.

Report 13-17: Level of Commitment for University of Wisconsin System Program Revenue Balances (November 2013)

We categorized the level of commitment for \$755.4 million of UW System's total program revenue balance as of June 30, 2012. We found that 60.8 percent had documentation to support an obligation or plan for use, 15.7 percent were designated for a purpose related to the funding source, and 4.7 percent were held as reserves. UW institutions did not provide documentation of a plan or obligation for 18.8 percent of these balances.

Report 13-18: Petroleum Inspection Fee Revenue Obligations Program (December 2013)

The program issued revenue bonds and other debt to fund claims under the Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. We provided an unmodified opinion on its financial statement for FY 2012-13 and FY 2011-12. A \$0.02 per gallon fee charged for petroleum products sold in Wisconsin will be used to repay the \$188.7 million in revenue obligations outstanding as of June 30, 2013.

Reports Published in 2014**Report 14-1: WHA Television (January 2014)**

We provided an unmodified opinion on the FY 2012-13 financial statements of WHA Television. WHA Television earned \$14.8 million in revenue during FY 2012-13, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Report 14-2: WHA Radio (January 2014)

We provided an unmodified opinion on the FY 2012-13 financial statements of WHA Radio. WHA Radio earned \$11.9 million in revenue during FY 2012-13, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Report 14-3: University of Wisconsin System (February 2014)

We provided an unmodified audit opinion on UW System's FY 2012-13 and FY 2011-12 financial statements. UW System's unrestricted net position, which represents amounts available for future spending, increased to \$1.1 billion as of June 30, 2013, largely due to growth in unspent balances from student tuition and fees. We again reported a material weakness in internal control over Human Resource System (HRS) security.

Report 14-4: Oversight of the Human Resource System and Payroll and Benefits Processing (February 2014)

University of Wisconsin System

We reviewed the implementation of the Human Resource System (HRS), which is used to administer payroll and benefits for UW System employees, and noted concerns that reduced efficiency and increased costs beyond the \$78.6 million spent for HRS planning and implementation. We included recommendations for UW System to resolve problems created by software modifications and to improve oversight of HRS.

Report 14-5: Local E-Government: Best Practices Review (February 2014)

Best practices reports seek to build on the efforts of local governments by identifying and publicizing successful approaches. We surveyed all local governments in Wisconsin, reviewed selected local government websites, and identified certain best practices for e-government that increase the usefulness of websites and potentially allow local governments to increase efficiencies.

Report 14-6: State of Wisconsin FY 2012-13 Single Audit (March 2014)

State agencies administered \$12.5 billion in federal financial assistance in FY 2012-13. Expenditures funded by the federal American Recovery and Reinvestment Act of 2009 decreased from \$3.5 billion in FY 2009-10 to \$155.1 million in FY 2012-13. We provided an unmodified opinion on federal compliance and included recommendations related to the administration of federal programs. We also questioned more than \$520,000 in costs charged to federal programs.

Report 14-7: Health Insurance Risk-Sharing Plan (HIRSP) Authority (June 2014)

We provided an unmodified opinion on the HIRSP Authority's 2013 financial statements. 2013 Wisconsin Act 20 included provisions to dissolve the HIRSP Authority and end HIRSP insurance coverage. Subsequently, 2013 Wisconsin Act 116 extended insurance coverage through March 31, 2014. Act 116 also transferred administrative responsibility for the operations and eventual dissolution of HIRSP to the Office of the Commissioner of Insurance.

Report 14-8: Energy Assistance and Weatherization Assistance Programs
(June 2014)

These programs provide low-income individuals and families with financial assistance to offset energy costs and services to reduce energy consumption. In FY 2012-13, 222,470 households received energy assistance, 7,471 dwelling units were weatherized, and expenditures for the programs totaled \$217.1 million. We included recommendations for DOA to implement policies that will improve program integrity and oversight.

Report 14-9: State of Wisconsin Investment Board (July 2014)

As of December 2013, SWIB had \$101.3 billion in assets under management, and investment returns for the two funds of the Wisconsin Retirement System exceeded five-year benchmarks. Although it is too soon to fully evaluate SWIB's new investment strategies, initial results have been mixed. We include recommendations for SWIB to report additional information to the Legislature on its investment strategies, Wisconsin investments, and compensation.

Report 14-10: Wisconsin Lottery (August 2014)

We provided an unmodified opinion on the Wisconsin Lottery's financial statements for FY 2012-13 and FY 2011-12. Lottery ticket sales increased from \$547.6 million in FY 2011-12 to \$566.1 million in FY 2012-13, or by 3.4 percent. We found that the Wisconsin Lottery was in compliance with statutory spending limitations related to prizes, product information, administrative expenses, and retailer compensation.

Report 14-11: Wisconsin Economic Development Corporation
(September 2014)

We completed certain analyses related to WEDC's financial management and updated information that, when combined with report 13-7, fulfilled our statutory requirement to biennially conduct a financial audit of WEDC. We included recommendations to further improve WEDC's financial management, including its efforts to monitor loans.

Report 14-12: Governor's Read to Lead Development Fund (September 2014)

We completed a statutorily required financial review of the Governor's Read to Lead Development Fund, which was created to provide grants in support of literacy and early childhood development programs. The Fund incurred no expenditures during FY 2013-14. Literacy program grants totaling \$204,926 that were awarded to seven recipients will be paid in the future both from the Fund and from GPR statutorily designated for this purpose.

Report 14-13: Petroleum Inspection Fee Revenue Obligations Program
(November 2014)

The program issued revenue bonds and other debt to fund claims under the Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. We provided an unmodified opinion on its financial statement for FY 2013-14 and FY 2012-13. A \$0.02 per gallon fee charged for petroleum products sold in Wisconsin will be used to repay the \$164.5 million in revenue obligations outstanding as of June 30, 2014.

Report 14-14: Government Accountability Board (December 2014)

We recommended GAB's staff improve how voter registration records are maintained; improve the oversight of campaign finance, lobbying, and code of ethics laws; and improve procedures for considering complaints filed with GAB. We also identified several issues for consideration by the Legislature.

Report 14-15: Initial Claims Processing for Unemployment Insurance
(December 2014)

We found almost 1.7 million calls to the call centers at DWD, or 60.2 percent of the total, were blocked in FY 2013-14 because call center staff were busy and the telephone queues were full. We also found that DWD's administrative law judges generally issued appeals decisions faster than required by federal law, and that the amount of unemployment benefit overpayments recouped by DWD declined steadily in recent years.

Report 14-16: Biennial Report (December 2014)

The Biennial Report summarizes the nonpartisan Legislative Audit Bureau's statutory responsibilities and highlights significant accomplishments from January 1, 2013, through December 31, 2014. During this period, the Fraud, Waste, and Mismanagement Hotline (1-877-FRAUD-17) received 236 reports, of which 201 were specific to state agencies or programs.

Audit Opinions

**Independent Auditor's Report on the FY 2012-13 Financial Statements
of the State of Wisconsin**

Dated December 11, 2013

**Independent Auditor's Report on the FY 2013-14 Financial Statements
of the State of Wisconsin**

Dated December 12, 2014

This annual effort requires on-site audit work at DOA and every major state agency. Our audit opinions and the related financial statements are presented in the State's *Comprehensive Annual Financial Reports*, which are published by DOA. These statements are intended to provide the most complete and revealing picture of the State's financial position and operating results. We provided unmodified opinions on the statements audited in 2013 and 2014.

**Independent Auditor's Report on the FY 2012-13 Financial Statements
of the University of Wisconsin System** *Dated December 11, 2013*

**Independent Auditor's Report on the FY 2013-14 Financial Statements
of the University of Wisconsin System** *Dated December 12, 2014*

Although we audit UW System as a major element of our audit of the State's overall financial statements, and perform an annual financial audit as required by s. 13.94(1)(t), Wis Stats., the request of university management we also provide a separate audit opinion on the stand-alone financial statements. These statements provide additional detail on UW System's finances. We provided unmodified opinions on the statements audited in 2013 and 2014.

**Independent Auditor's Report on the FY 2012-13 Financial Statements
of the State of Wisconsin Investment Fund** *Dated September 13, 2013*

**Independent Auditor's Report on the FY 2012-13 Financial Statements
of the State of Wisconsin Investment Board's
Retirement Investment Trust Funds** *Dated November 25, 2013*

**Independent Auditor's Report on the FY 2012-13 Financial Statements
of the State of Wisconsin Investment Board's
Various Funds** *Dated November 25, 2013*

**Independent Auditor's Report on the FY 2013-14 Financial Statements
of the State of Wisconsin Investment Fund** *Dated October 28, 2014*

Our annual audits of the investments managed by SWIB provide assurance to governments and individuals as to the overall value of investments and the income earned by the investments. We provided unqualified opinions on the statements audited in 2013 and an unmodified opinion on the statements for the State of Wisconsin Investment Fund in 2014.

**Independent Auditor's Report on the 2011 Financial Statements of the
Department of Employee Trust Funds** *Dated July 11, 2013*

**Independent Auditor's Report on the 2012 Financial Statements of the
Department of Employee Trust Funds** *Dated December 9, 2013*

**Independent Auditor's Report on the 2013 Financial Statements of the
Department of Employee Trust Funds** *Dated December 16, 2014*

Our audits of the pension funds and other accounts managed by the Department of Employee Trust Funds help provide assurance to contributing governments, covered government employees, and annuitants concerning the financial status of the funds. We provided an unqualified opinion on the 2011 financial statements, and an unmodified opinion on the 2012 and 2013 financial statements.

Statutorily Required Certifications

Certification of the State's Net Indebtedness as of January 1, 2013

Certification of the State's Net Indebtedness as of January 1, 2014

These certifications are used to determine compliance with annual debt limits and were completed during the course of the audit of the State's financial statements.

Other

Proposed Contract for the Venture Capital Investment Program

Dated April 21, 2014

We reviewed DOA's proposed contract with an investment manager for the investment of moneys in venture capital funds to determine the extent to which the contract conformed with certain provisions of 2013 Wisconsin Act 41. We submitted the letter of review required by Act 41 to the Joint Committee on Finance and the Secretary of DOA on April 21, 2014.

■ ■ ■ ■

Appendix 1

Recurring Audit Responsibilities

Under s. 13.94, Wis. Stats., and other statutory provisions, the Legislative Audit Bureau is required to conduct annual financial audits of:

- the University of Wisconsin System;
- the Department of Employee Trust Funds;
- the Capital Improvement Fund;
- the Bond Security and Redemption Fund;
- the State of Wisconsin Investment Board;
- the Wisconsin Lottery;
- the Health Insurance Risk-Sharing Plan (HIRSP) Authority;
(Our final audit of the HIRSP Authority will be released in 2015.)
- the Governor's Read to Lead Development Fund.

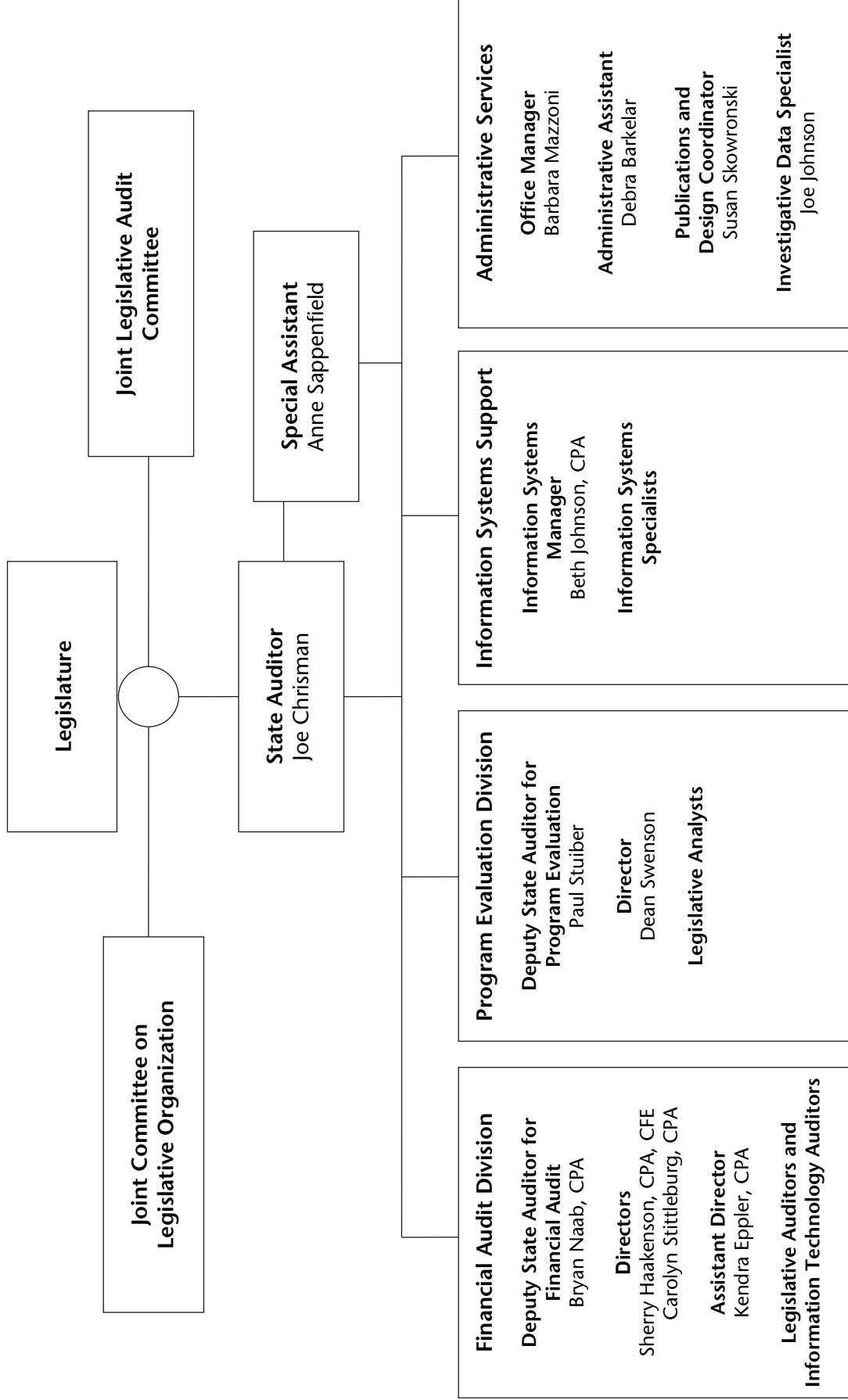
Statutes require us to conduct biennial performance audits of the State Lottery, the State of Wisconsin Investment Board, and the Wisconsin Economic Development Corporation.

At least once every three years, we are required by statutes to audit the State Life Insurance Fund, the Local Government Property Insurance Fund, and the Injured Patients and Families Compensation Fund. In recent years, we have performed these audits every three years and have performed interim work each year for purposes of our annual audit of the State of Wisconsin's financial statements.

Statutes require us to periodically contract for an actuarial audit of the Wisconsin Retirement System and to conduct county and municipal best practices reviews. We are also required to review the quarterly statements of economic interest and reports of economic transactions that members and employees of the State of Wisconsin Investment Board file with the Government Accountability Board, and we are responsible for conducting special examinations of the accounts and financial transactions of any department or office as the Legislature, the Joint Legislative Audit Committee, the Joint Committee on Legislative Organization, or the Governor directs.

Wisconsin Legislative Audit Bureau

December 2014



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